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Mar. 27, 1996 **LETTER 1196**

THE PICTURE: When I wrote the last Letter the market was rather chaotic, having just suffered the second largest Dow loss in points (171 points) in stock market history. However, it is well to note that the *percentage drop* was only 3.04%. (As a matter of interest, the two largest one-day percentage drops in the Dow were 24.4% on December 12, 1914 and 22.6% on October 19, 1987.)

S&P ACTION: The week ended March 15 produced the *largest volume in stock market history.* In the last two months the market generated *six of the seven biggest volume weeks in history.* That constitutes explosive action, but here's something few have noticed or commented on. The broad **S&P 500 Index** struck its bull market high of **661.45 on February 12.** With all the recent record volume, the S&P has not been able (as of this writing) to better its February 12 high. Churning? Distribution?

DOW ACTION: In the last Letter I also stated that if the market was basically weak, there were two points to watch on the downside. The two points were the February 20 lows of **5458.53** for the Dow and **2027.85** for the Transports. I added "that as long as one or both Averages hold above the February lows, the secondary trend of the market will remain neutral to bullish."

Of course, what happened was that neither of the February 20 lows were even approached by the Averages. Actually, the Transports held their ground better than Industrials.

Next came a surge in Transport strength. On March 14 the D-J Transportation Average surged to a new all-time high, and the obvious next question was, "Would the Dow confirm?" That question was answered decisively on March 18 when the Dow surged 98 points to a new all-time high.

Interestingly, with the two D-J Averages in new high territory the market turned tentative, then weak. I want to remind subscribers that upside confirmations by the Industrials and Transports are almost always bullish -- BUT eventually there will be an upside confirmation which will be the final one, prior to the beginning of a new primary bear market. To put it another way, each upside confirmation in a bull market holds *less authority than the preceding confirmation.*

The public's appetite for common stocks appears to be both voracious and endless. Billions of dollars continue to pour into the market, much of it by way of mutual funds. What we're seeing may not be a mania, but it's the nearest thing I've seen to a mania since the frenzy for science and tech stocks that characterized the peak of action during 1968.

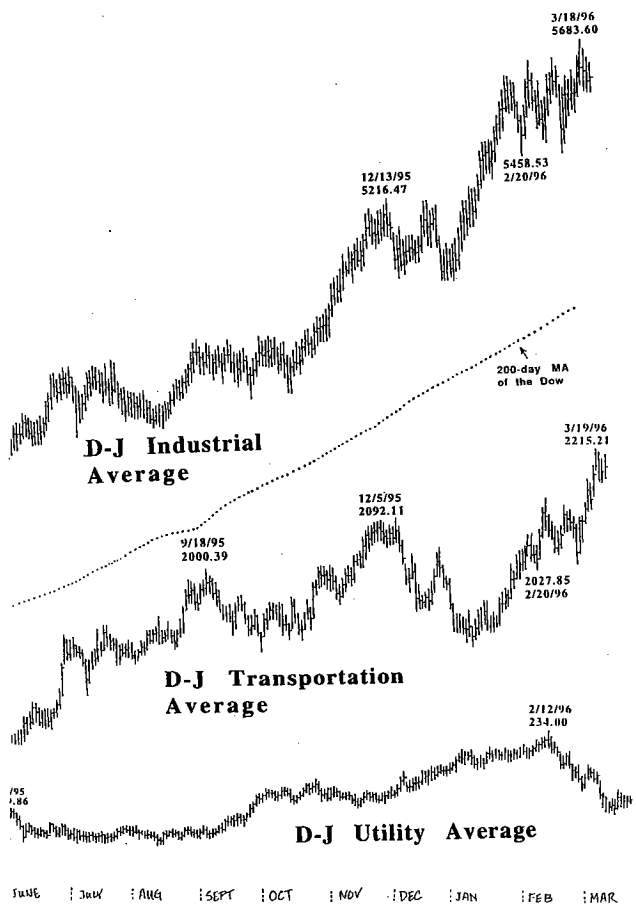
On top of everything else, the Social Security Administration has put out feelers to the effect that they might place a certain percentage of common stocks into the SS Trust (the Trust is already loaded with government IOUs). With the average yield on stocks now around 2% such a belated move would be less than brilliant. By the way, where was the Social Security brain trust in the 1980s when the Dow was 5,000 points lower? Well, we didn't have a "New Era" then.

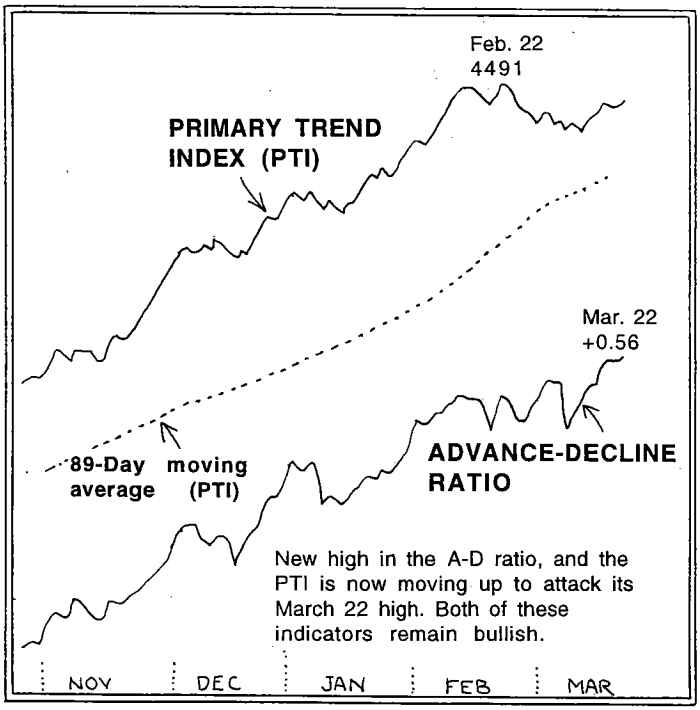
PTI & A-D RATIO ACTION: Turning to the page 2 chart, note that the **advance-decline ratio** is near or (as this is written) at its all-time high. The **Primary Trend Index (PTI),** having recorded an all-time high of 4491 on February 22, slid off for a few weeks and more recently has been moving sideways. But as of this writing, the PTI has *not* recorded a new high. Now that's a change!

Mar. 15 DJIA 5584.97; PTI 4471; A-D Ratio +0.01
Mar. 22 DJIA 5636.64; PTI 4483; A-D Ratio +0.56
Dow Yield: 2.13%; Dow Price/Earnings: 17.9
Dow 200-day MA: 4963; Dow 30-day MA: 5581
Dow Times Book Value: 4.31; PTI 89-day MA: 4421
Percentage of Undervalued Blue-chips: 4%
Gold 200-day MA: 391.38; Gold-PTI: 722

So what I'm watching now is to see whether the PTI will climb to a new high above 4491 or whether, well, whether it will do something else. I never like to outguess the barometer. No, it's far better (and safer) to let it tell its own story.

To recount a bit of history, the PTI turned bullish back on February 2, 1995. That was the day when it pushed decisively above its 89-day moving average. The PTI has remained bullish ever since, a period of 13 consecutive months. This is one of the longer periods in which the PTI has remained in its bullish mode, although there have been a number of instances that have been longer, for instance the February 1988 to January 1990 PTI rise (23 months) or the great February 1991 to April 1994 PTI rise (38 months). During the '91 to '94 span the PTI declined several times to "test" its moving average, but the MA was never penetrated decisively. The current 13-month bullish period is a surprisingly long time without the PTI at least coming down to test its moving average.





One of the remarkable properties of the PTI (and I base this on 26 years of history going back to 1971) is that it does not tend to produce whip-saws. In other words, once it moves above its 89-day moving average and into the bullish mode, it tends to remain in the bullish mode for years at a time. Conversely, once it drops *decisively* below its MA, watch out -- the aftermath can be very costly for holders of stocks.

INVESTMENT POSITION: The bull remains in the box. The market will be designated as bullish until PROVED otherwise.

I feel that the stock market is on a see-saw, very closely balanced, and it wouldn't take much to tip the balance one way or the other. The Dow has recorded a series of rising peaks, but the broader S&P 500 has traced out a series of declining peaks.

As you can see in the next section of this Letter, the S&P has risen on 15 of the last 16 months. That's an incredible string of up-days, and it puts the market under strain.

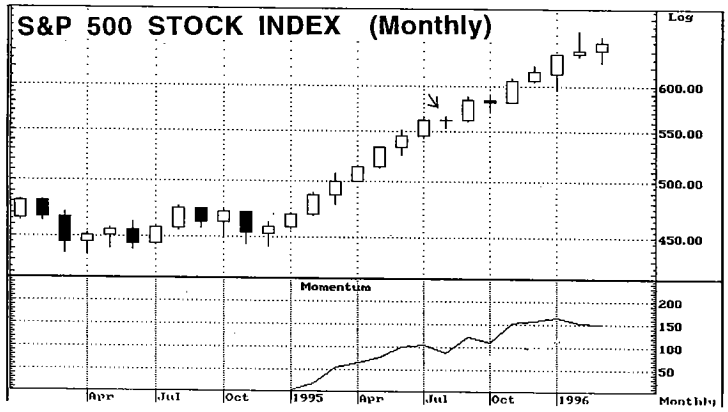
Think about it -- with billions of dollars pouring into the market each week the market has been "churning" or "treading water." In other words, despite all the money coming in someone is selling. There's a mighty battle going on, between buyers and sellers, and the outcome is not yet apparent.

In the meantime, my advice is to be very careful. A churning market on top of a string of 15 out of 16 monthly advances is a market that can do anything. One of the things it can do is produce -- losses.

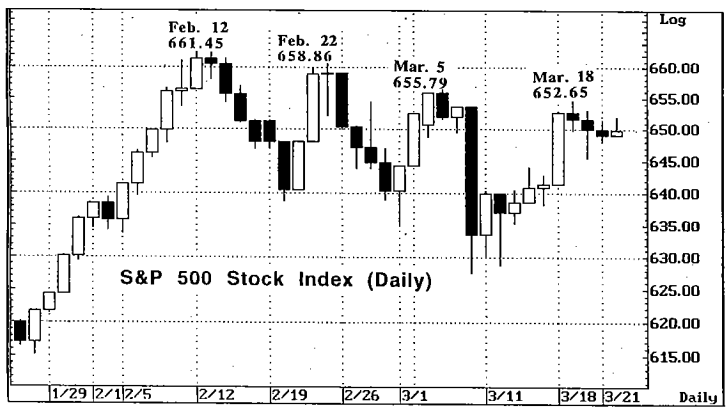
CHARTS: I'm including here a collection of what I consider significant charts. Most of these charts will be in Japanese candle stick form. In candle stick charting, the white rectangles signify up-days and black rectangles denote down-days. The fine vertical lines denote the high and low for each day.

Everyone knows what the D-J Averages are doing. The Dow Averages are the "babies" that make the headlines; they're the ones that everyone watches. But the broader S&P 500 Stock Index presents a slightly different picture, one worth studying. This is a monthly chart of the S&P. Note that starting in November 1994 the S&P has risen on 15 out of 16 months or 93.7% of the time!

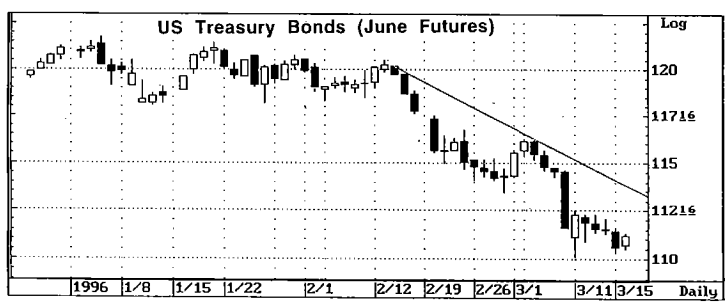
[Note: August '95 (shown by arrow) was virtually unchanged.] This is **extreme**, and I have to wonder whether 15 months up out of 16 doesn't represent the market's reflection of the BEST that can be seen ahead. Maybe, maybe not, but it has me thinking. Adding to my suspicion is the fact that momentum (lower part of the chart) is now rolling over.



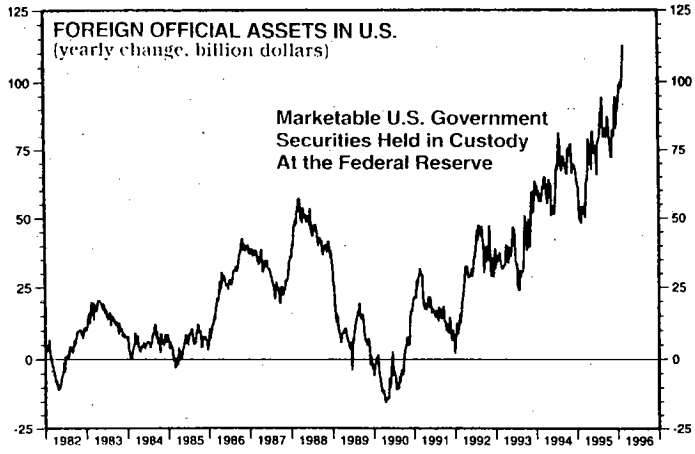
This daily chart of the S&P 500 adds to my suspicions. Note that at the February 12 peak the S&P hit **661.45.** On the February 22 peak the closing was **658.86.** On the March 5 peak it was **655.79.** And on the most recent peak the S&P closed at **652.65.** A high and then three consecutively declining peaks. This series of declining tops hardly constitutes a picture of strength.



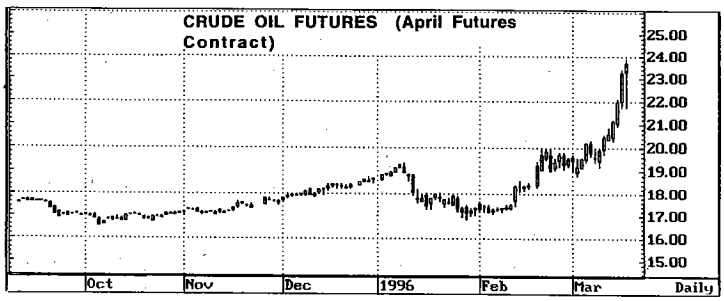
Veteran stock market practitioners keeps their eyes on the bonds. Reason: interest rates are one of the most important factors in pricing stocks. Since mid-February bonds have produced their version of a swan dive, with the long-bond dropping from a January 4 high of 121 12/32nds to a March 11 low of 110 3/32nds basis the June contract. That huge drop wiped out a year-and-a-half of bond income. An upside reversal would come at around 113 (this would reverse the bearish trendline shown on the chart).



One of the reasons for US bond strength is the amazing torrent of buying of US bonds by foreign central banks. Most of the buying has been done by Japan, and much of it has been speculative. Easy, borrow money at 0.5% in Japan, sell the yen for dollars, then buy T-bonds at 5-6.5% interest and collect the difference. And yes, you can buy the bonds on 5% margin. Of course, if something goes wrong . . . ?



One of the areas of potential trouble is oil. Crude oil prices have recently surged over $24 a barrel to their highest level since the Gulf War. Since the price of oil affects almost everything else, this is an area that is being scrutinized by all market observers. The big swing factor in oil at this time is whether Iraq will or will not be allowed to make limited sales. In the meantime, oil supplies in the US are at their lowest levels since 1977.



How are world stock markets doing? Here's a rundown, courtesy of the *International Herald Tribune.*

NOTES & QUOTES: The Clintons again: A new book, "Blood Sport" by Pulitzer prize winner James B. Stewart has just come out with a huge first printing of 300,000. Here's a section of the *NY Times* review of the book: "The book paints a highly unflattering portrait of the Clintons, their business dealings in Arkansas, their supposedly contentious marriage and their messy handling of Whitewater and other troubles. It depicts Hillary as an arrogant hypocrite, who was reluctant to reveal her own efforts to make easy money in Arkansas during the '70s, while publicly denouncing the yuppie pursuit of 'wealth, power, privilege.' It disputes the Clintons' depiction of themselves as 'passive' investors in Whitewater, while laying out a complicated history of dubious tax deductions and financial disclosures. And it depicts the Clinton White House given to knee-jerk damage control that led to further press investigations, further legal problems and further political damage." Surprise, the Clintons did not cooperate with the author.

Russell Comment: Listen, I don't blame anyone for having tried to make money during the '80s or for trying to make money today. But the gall, the colossal chutzpah of the Clintons lecturing us about greedy people who grabbed for money during the '80s and then never paying their "fair share" of taxes. Have you ever seen a pair of bigger hypocrites? How anyone can vote to keep the Clintons in the White House is beyond me.

* *

Dole is obviously going to be the Republican candidate. He'll have a tough time beating Clinton. Dole's critics say he is weak, too old, has no vision and stands for nothing. To me, the one thing Dole may stand for is old-fashioned integrity, as against Clinton sleaze. That plus Dole's generational difference could conceivably be used as a plus. Writes columnist Cal Thomas, "In the coming campaign, Dole should play the part of a parent who has returned home after a long absence to find his house in shambles. Who is responsible, he should ask, for trashing the home he spent so much time, effort and money to build? Who should be held accountable for the destruction of such fundamental principles as duty, honor, country? Whose values produced children born out of wedlock to children, venereal diseases, rampant crime and broken homes? While Dole's generation was liberating Europe and defeating Japan, what force invaded and occupied America?" **Russell Comment:** Of course, the Clintons could be (subtly, of course) painted as part of the thinking and ACTING that produced today's "Sleaze-America." Who knows, it just might work. Frankly, I don't know what else will.

* *

Clinton's technique -- veto everything the Republicans come up with -- then later claim that that's what he wanted all along. This from Paul Gigot's March 15 *WSJ* column: *"This is the president who ran for office promising welfare reform, but has since vetoed it twice. He now vows to veto a Senate welfare bill he once said he'd sign, one that passed with 35 Democratic votes. When all 50 governors endorsed a bipartisan reform, Clinton dispatched Donna Shalala to trash even that. Yet Clinton is now running a re-election TV ad on welfare reform!"* **Russell Comment:** I still can't believe that Americans are actually going to re-elect Bill Clinton.

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Does Wall Street love a bull market? Better believe it. Goldman Sachs reports a pretax profit for the fiscal first quarter (that's quarter, not full year) of **$565 million.** Seriously, this points up the difference between the "new" sophisticated, financially and technically oriented person and the average working "stiff." Yes, the disparity between the upper earning strata and the low earning strata continues to widen. It's a product of the times.

* *

Clinton has submitted his ninth federal budget, and it will be dead on arrival. The "new" Clinton budget calls for spending cuts, with the great majority of cuts after Clinton leaves office. Now for the actual current deficit. The national debt is now **$5.058** trillion. One year ago it was **$4.843** trillion. The difference is a fat $215 billion. *That's the actual deficit* of the last 12 months, equal to $4.13 billion a week. And remember, even if the budget is ultimately balanced (which is extremely doubtful), the government still has to pay interest on the existing debt which is climbing well over $5 trillion (nobody is even hinting that we pay down the actual debt). Ultimately (remember "inflate or die") the debt will have to be monetized, which means we have a future of perpetual inflation with intervals of semi-stability. And that's why wealthy families put a certain portion of their assets into real estate, gems, art, gold. Long-term, the path of the dollar (in terms of purchasing power) is DOWN.

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The US Census Bureau has just come out with a study showing that by the year 2050 the white population of the US will be 53%, the Hispanic will be 24.5%, the Asian will be 8.2% and the black will be 13.6%. Thus the non-Hispanic white population will

constitute only a slight majority of the US population. The huge increase in the Hispanic sector will be a result of increased immigration and high birth rates.

* *

US West is paying $5.3 billion to take over Continental Cablevision and is also assuming $5.5 billion in Continental's debt. Continental owns cable service in 20 states plus E! Entertainment plus Home Shopping Network plus the Golf Channel. **Russell Opinion:** Bad deal -- as I've said before, I think the future is in wireless not cable.

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The *International Herald Tribune* just published this fascinating rundown of the TAX and SOCIAL SECURITY burden on a salary of $150,000 in selected countries. I have put parentheses around nations where citizens enjoy the biggest return on their earnings. Do you notice any pattern -- or, why Asia is fated to prosper while you and I pay "through the nose" for BIG government. Of course, when you add state income taxes and sales taxes on top of the US picture, you're talking about a 50% net take in many states, including California and New York. And for what?

Tax and Social Security Burden on a Salary of $150,000

	Employee social security $ (1)	Income tax $ (2)	Net to employee $	Net % to employee after tax & social security	Marginal income tax bracket %
Australia	0	65,946	84,054	56%	48%
Austria (3)	7,577	50,747	91,677	61	50
Belgium (4)	20,112	62,246	67,643	45	60
Canada (5)	1,470	69,033	79,497	53	53
China (6)	0	45,494	104,507	(70)	45
Denmark	7,625	75,797	66,579	44	65
Finland	15,027	70,317	64,656	43	56
France	22,877	27,258	99,866	67	59
Germany	9,874	46,059	94,067	63	51
Hong Kong	0	22,500	127,500	(85)	15
India	15,000	58,710	76,290	51	40
Indonesia	3,000	45,191	101,810	68	30
Ireland	5,099	62,668	82,233	55	48
Italy (7)	17,024	50,654	82,323	55	46
Japan	11,087	28,497	110,417	(74)	55
Korea	5,337	40,634	104,030	69	48
Luxembourg (8)	8,342	50,240	91,419	61	51
Mexico (9)	1,500	46,962	101,538	68	35
Norway (10)	11,700	53,678	84,623	56	50
Singapore	0	26,745	123,255	(82)	28
South Africa	0	62,168	87,833	59	43
Spain	2,030	64,146	83,825	56	56
Sweden	677	70,530	78,794	53	51
Switzerland (11)	10,278	43,073	96,650	64	48
U.K.	3,000	51,860	95,141	63	40
U.S. (12)	5,933	47,099	96,969	65	52

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The average cost of bringing out an "A" movie has surged to around $55 million (this includes production, marketing and film copies). And from 1989 to the present advertising costs for an average movie have soared 92%. Thus, movie making has become a very expensive, hazardous business and blockbusters are needed to make up for the many losers. A major problem is that producers believe (or hope) that stars can guarantee a winner. Actually, no star can guarantee a winner but Tom Cruise, Tom Hanks and Jim Carrey (all members of the exclusive $20 million-a-picture club) are close. Speaking of multi-bucks, the rumor is that Warner Bros. has offered Mel Gibson $25 million to do Lethal Weapon IV. Is Hollywood going mad?

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Consumer Reports has come out with its annual auto report. Here are their "best" selections for '96. As you know, I consider the single best buy to be a used, low-mileage Mercedes 300E. As to the best buy of '96, the Mercedes E320, I obviously agree with *CR*. I bought one a few months ago, and it's a total winner.

Best of 1996

Consumer Reports' selections, based on its testing and reader surveys.

- **Best family sedan:** Toyota Camry
- **Best inexpensive car:** Honda Civic
- **Best sport-utility vehicle:** Ford Explorer
- **Best high-mileage car (fuel economy):** Toyota Tercel
- **Most fun to drive:** Mazda MX-5 Miata and BMW 318ti hatchback
- **Best regardless of price:** Mercedes-Benz E320

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With the threat of Russia fading, the major European powers are continuing to cut their military budgets. Last month France announced a sweeping overhaul of its military which included a 30% cut in its armed forces. Four days later Germany announced a 10% cut. Part of the incentive for the cuts was the very poor showing of the Russian military in Chechnya. Said French defense specialist Francois Heisbourg, "Decay was the right word to describe the state of the Russian military over the last five years. Chechnya has shown we've now entered the period of disintegration."

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The nation's 5,789 **mutual funds** held $2.28 trillion at the end of 1995, according to the Investment Company Inst. There are 2,222 equity funds which held 45% of the money, 2,567 bond funds holding 28.3%, and 1,000 money funds holding 26.7%. One-third of all fund money was in retirement accounts and at the end of '94, mostly in individual retirement accounts. A 1992 NYSE study showed that 51 million people owned stocks and that 31% of US households owned mutual funds. The figures are undoubtedly much higher today.

* *

Sports are bigger than ever, but pity the poor fans. Get this: in football, the Browns are heading for Baltimore (but Cleveland keeps the name, Browns), the Houston Oilers are heading for Nashville, the LA Rams went to St. Louis, whose Cardinals went to Phoenix, while the Oakland Raiders went to LA and then back to Oakland, and Seattle is suing the Seahawks to keep them from going to LA. Ah, those loyal fans, who the devil knows who they'll root for next year or the year after?

* *

With the US still running big budget and trade balances, who finances all this debt? Basically, it's Japan's central bank, the Bank of Japan (BOJ). Over the past year BOJ has bought over $200 billion in US Treasuries, much of this in an attempt to keep the US dollar from falling (remember, for export reasons Japan wants a cheaper yen which translates into a higher dollar). On top of this speculators have been borrowing yen at 0.5% interest and buying T-bonds yielding over 6%. But this creates a very volatile, speculative situation. It's a bubble with huge bets on yen interest rates staying low and US rates not climbing. Two weeks ago when the news of the big pop in US employment came out the bond market swooned as rates surged and many speculators were caught with heavily leveraged positions.

At present foreign central banks hold at least $557 billion in US Treasuries (which is actually more than the Fed holds). That puts tremendous power in the hands of foreign central banks and speculators. It means that our fate (market-wise) is not in our hands. And as long as the US continues to generate huge budget and trade deficits, and as long as foreigners finance these debts, this will be the situation.

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The NYSE, AMEX and NASDAQ are not the only exchanges doing business. Hardly, I count 64 world exchanges trading either stocks or futures and options and bonds. Some of the exchanges you may not have heard of are the Tokyo Grain Exchange, the Kobe Rubber Exchange, Austrian Futures and Options Exchange, Toyahashi Dried Cocoon Exchange, Irish Futures and Options Exchange, Manila Int'l Futures and Options Exchange, International Petroleum Exchange, UK, and so forth. It's a big world out there, and it's trading, trading.

* *

I find that *Worth* magazine [(800)777-1851] is one of the best and most informative of the business/stock/investment magazines. In an article in the April issue, "A Battle Without Honor," Walter Mead writes about the hypocrisy of the current politico-blather about balancing the budget. "Think about it. It's the year 2001. Congress is in session. Possibly it's more conservative than the one we have now, possibly more liberal. Whatever it is, it will be able to vote whatever budget it wants for the next year. It can vote a budget in surplus, a balanced budget, or a budget with a colossal deficit. It won't care two straws what the Congress of 1996 thought the budget should be. The Congress of 2001 cannot be bound by anything Congress does in 1996." **Russell Comment:** Exactly,

which is why only a Constitutional amendment will force Congress to balance the budget. And that's why Congress is so adamantly against a Constitutional amendment.

Mead talks about US workers' declining prospects. "Then there's that other economic problem that Washington seems determined to ignore: the stagnation of wages for the American middle class. It is now 23 years since real weekly wages peaked in America. For a while, as more women joined the work force, the increase in two-paycheck households kept family incomes rising even as individual incomes fell. Now family incomes are starting to suffer. And this during an expansion. When the next recession comes -- and it will, in spite of all the stockbrokers and Congressional flimflammers who want you to think that the good times will roll on forever -- the middle class will be standing in the path of a steamroller." **Russell Comment:** Seeds of the next depression?

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Where the Money Is: From the March 12 *Women's Wear Daily*: "Milan -- Buyers from the Far East descended in droves on Milan's fashion shows this season. Some houses even said they were forced to turn away perspective buyers for want of space. 'The Future of Italian fashion is in Asia,' said Aldo Pinto, chairman of Krizia, who hired 40 Chinese models to show the collection last week." The article continues, "Italian textile and apparel exports to Asia in the first 10 months of 1995 rose 28% from the year earlier period to $3.75 billion." **Russell Comment:** Kind of interesting, isn't it?

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Money Talks: With all the worry about China and Taiwan, **money** is the clear winner. The following from columnist Thomas Friedman: "Today, China is different. It is no longer the isolated, peasant-based economy of the Mao era. It is now connected to the global economy. And the legitimacy of China's leaders today depends on their ability to maintain economic growth and jobs to accompany the millions of Chinese entering the labor force each year. China's leaders cannot do that without the $100 million a day in foreign investments that now pours into China -- which accounts for 20% of total annual investment here. A good deal of that $100 million would dry up the minute China attacked Taiwan. The Taiwan stock exchange would crash, choking off all Taiwanese investment in the mainland, and that surely would lead to capital flight from the Hong Kong stock market as well -- killing the two golden geese, Hong Kong and Taiwan, that together have built $100 billion worth of factories, offices, hotels and energy plants in China."

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Despite a surplus this year of $1.8 billion, Post Office authorities are worried. They feel that 25% of their volume is at risk due to the rise of electronic communications. I've been saying for years that the PO has to become more efficient, and certainly more price conscious. In many cases it's cheaper to use the phone and the FAX than the US mail. I continue to push for privatization of the PO. The need now is for efficiency. And no government branch, agency or department is efficient -- or accountable. Can you imagine what would happen if AT&T took over the PO?

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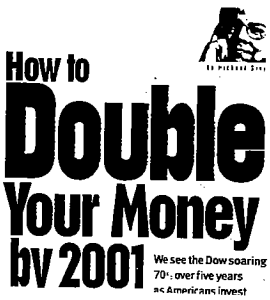
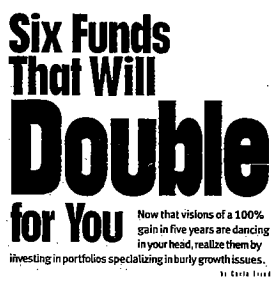
Here in S. California we have AM station KNX, which provides us with around-the-clock 24 hour news. But nightly at 9PM and a repeat at 2AM the station gives us two consecutive half-hour programs of the old radio serials (the Shadow, Six Shooter, Dragnet, Texas Rangers, etc.). On Saturday night we get Jack Benny followed by Burns and Allen. George Burns died two weeks ago at the age of 100. His comedy was, I thought, funnier than that of his best friend, Jack Benny. In his later years people would kid Burns: "George, you're in your late-nineties. You smoke those awful smelly cigars. You drink those potent martinis. You always have a gorgeous young woman hanging on each arm. What does your doctor say about all this?" "He's dead," replied Burns, as he puffed away on his cigar.

* *

White Hot: In January a record **$28.9** billion flooded into equity mutual funds. In the single month of January, more equity money came into mutual funds than in the entire year 1990. The latest issue of *US News & World Report* features an article, "Read and Grow Rich." The article listed more than 15 in-print books all dedicated to showing you how you too can be rich. A few titles are "The Beardstown Ladies' Common-Sense Investment Guide," "The Beardstown Ladies' Stitch-in-Time Guide to Growing Your Nest Egg," "Marshall Loeb's Lifetime Financial Strategies: Your Lifetime Guide to Future Wealth and Security," "Personal Investing for Dummies," "Buying Stocks Without a Broker," "Your Money or Your Life," "The Warren Buffet Way," "God Wants You To Be Rich," "Learn To Earn," "The Motley Fool Investment Guide," and on and on and on. Maybe the clincher is the March issue of *Playboy* with a cover story which runs, "Mutual Fund Madness, How To Pick the Winners." *Playboy* picking mutual funds? Are you kidding me!

Just as a rising tide raises all boats, so a rising stock market raises all expectations. These two headlines are from the current issue of the widely-read *Money* magazine. I thought they were flagrant. Twenty years ago if I had used these in an ad I probably would have had the SEC after me. Yep, the excitement is there, and the promises are appearing ever more frequently. Hot diggety dog!




Six Funds
That Will
Double
for You
Now that visions of a 100% gain in five years are dancing in your head, realize them by investing in portfolios specializing in burly growth issues.

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The struggle for a single European currency goes on and on. One major problem is that 65% of the German people want to retain their beloved, powerful D-mark. To qualify for entry into the single-currency concept, a nation's gross public debt may not be above 60% of its GDP. Inflation must not be more that 1.5% above the average of the three member states with the lowest levels. This makes is so difficult to qualify for entrance to the EU that I'm not sure that any European nation can make it. Suggestion -- don't hold your breath for the long-awaited single Euro-currency.

TWO ANNOUNCEMENTS: CHART BOOKS: Don't ask me why but in an industry that involves trillions of dollars, nobody else does this. What I'm talking about is chart books of the **D-J Averages** and the all-important **breadth index** (i.e. advance-decline ratio). I've been offering these chart books for decades, and to me they're invaluable. One is a *complete history* of the D-J Averages (all three Averages plus volume and bonds) going back to **1885**, a page for each year. Also important economic and world events are notated. It's in a big three ring binder, a page for each year. It's yours for $135; we pay the postage in the states. The second album covers the Dow and the A-D ratio (daily) going back to 1931. Comments about the action are included in many of the pages (one page for each year). The price is $95, we pay US postage. **For those who own the chart books**, the new 1995 pages will be ready shortly, price is $5 for the page of the Averages and $5 for the new A-D ratio page. Please send your money in now (outside the states there's an extra postage charge of $35 for each book).

NEW: I've mentioned before that I have (after 38 years) started a new business. The new business is less than a year old, but it's been doing very well -- and many subscribers have joined. However there's a stricture -- it's now open only to participants who have total assets of at least $1 million (and this can include the value of your home). If you qualify and you'd like information on my new business, write and let me know, and I'll send you the info. No pesty pressure, no follow-up phone calls, no one to bother you. All you get is information. If interested, write to Richard Russell, PO Box 229, La Jolla, CA 92038.

PRECIOUS METALS, GEMS: With the possibility of an international military incident between China and Taiwan, with China issuing warnings to the US to back off, it's gold that's been backing off along with silver. This has to be discouraging action for gold-philes.

Ah, I have a theory. I'm quite close to the gem and diamond market, and I can tell you that the diamond market is "hot." The word is that "there are no big stones around." The question is why? Why would gold be going nowhere and the diamond market (particularly big stones) be red hot?

I think the answers are as follows: (1) Money is now moving from West to East, and by East I mean to Asia. Today the booming business area of the world is Asia, and Asians (particularly the Japanese and the Taiwanese) are buying diamonds. The low taxes and extremely competitive wages in Asia militate towards savings and a build-up of assets. A certain portion of those assets are going into diamonds.

(2) But why diamonds (and other top-grade gems)? Wealthy residents of Taiwan and Hong Kong have to be concerned (if not downright worried) about their future under China rule. Furthermore, these people can't be happy about China's current possessive and belligerent attitude. If you, as a resident, want to leave Hong Kong or Taiwan in a hurry, you also want to take your assets with you. Gold is far too heavy to move in large quantities. But precious stones are ideal. You can carry $20 million worth of diamonds in a package half the size of a cigarette pack. You can hide a million dollar diamond in a corner of a secret pocket.

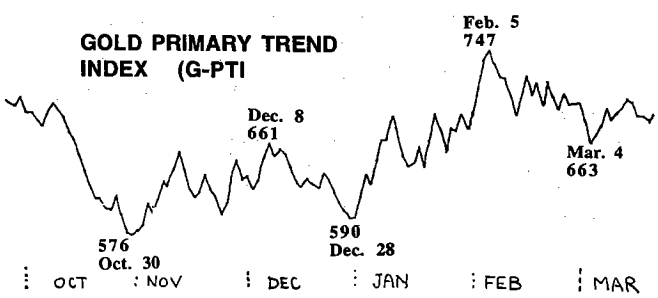
So I think that's one of the reasons that top quality diamonds are now so much in demand (even while gold and silver languish). Item: a few years ago the Christie's and Sotheby's auction catalogues were packed with large top-quality diamonds for sale (also rubies, sapphires and emeralds). The recent catalogues from the same auction houses contain remarkably few large gem-quality stones, and when they do appear they go for top prices. Conclusion: them that's got 'em aren't selling them. And those that want 'em are paying top dollar for them.

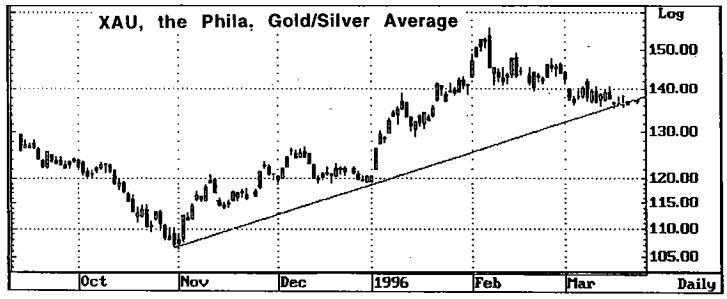
In the meantime, gold has been languishing. No one doubts the total liquidity of gold (you can sell any quantity in a few minutes, no, the only thing to doubt is the overall trend).

My Gold-Primary Trend (G-PTI) tells the story as well as it can be told. It does appear that the bottom is in place with G-PTI lows of 576 on October 30 and a slightly higher bottom at 590 on December 28. From there we saw the rally to the February 5 high of 747, and that corresponded with the February 1 gold peak (April contract) of 420.20.

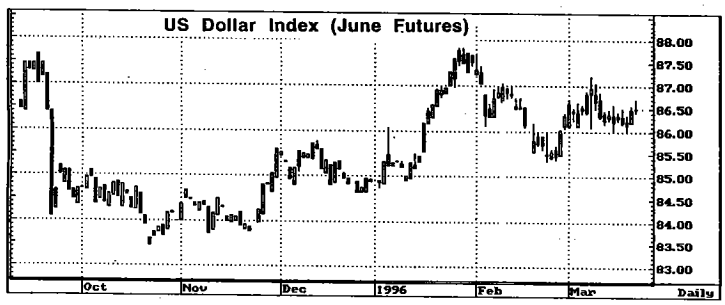
After the early-February peak, the G-PTI along with gold worked their way down. It makes little sense here to *guess* what comes next for gold. The metal appears to be in equilibrium. A move above 747 on the G-PTI would obviously be very bullish for gold and gold shares. But as long as the G-PTI holds above 590, it is reasonable to conclude that the secondary trend of gold is at least mildly up.

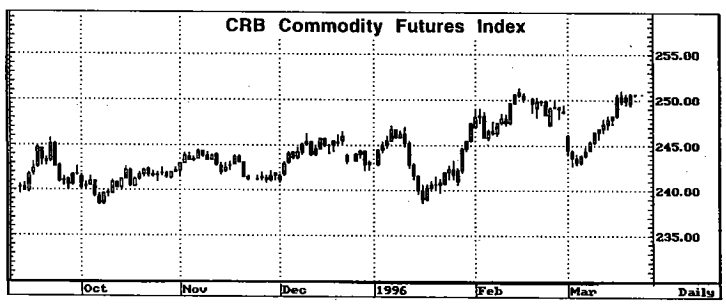
As for the Phila. Gold/Silver (XAU) Average, as you can see, it's sitting right on its trendline. Hopefully, it will hold above the 137-138 level. Bulls would love to see XAU above 140.





RUSSELL'S ODD & ENDS: With my new 70-inch Mitsubishi TV (which is a great set) we almost never go to a theater any more. We just rent the tapes. I think home video is the future and movie theaters will be dinosaurs . . . Gigot (*WSJ*, Mar. 22) headlines his column, "Coming Soon: Perot the Sequel or Jaws II." Gigot calls Perot "the live hand grenade of American politics" . . . And now Buchanan is threatening to start a third party . . . I'd buy the *New York Times* just for Maureen Dowd's column (Op-ed page) -- she's terrific . . . Larry King, ugh, I used to like him before he became the self-proclaimed Washington King-Maker. Larry is now as mindlessly super-liberal as *The New Yorker* magazine . . . The US airlines are having their biggest spring in years, but I still avoid traveling. I told a friend, "Once in a while everything looks to be going right, and the plane appears to be on time -- then they cancel the flight." . . . The stock market seems to be locked in a wide trading range -- on the upside it's severely over-bought, but on the other hand it appears stubbornly resistant to going down. What's keeping it up? Must be the billions of greenbacks that pour into Wall Street each week . . . It seems that each trading day the market opens higher as eager buyers rush in, but as the session goes on sellers enter, and the market levels off. Breadth, however, remains good, which is a plus . . . Very long-time subscribers remember back in '74 when the Transports were down to 125 and the Dow was 577. In those days everyone "hated" the Transports. What's happened? Since the '74 bear market low the Dow has climbed 876% and the despised Transports have risen 1,660%. Who'd a thunk it! . . . The US dollar is in a trading range as the chart below indicates. The range is 84-88, and it appears the dollar is going to stay in that range for a while . . . Incidentally (as every option-seller knows), the best bet for any market at any given time is -- trading range; two-thirds of the time markets do nothing . . . The CRB Commodities Futures Index is sitting right on its previous high of 250. The CRB is heavily weighted by the recently high-flying grains, but still -- any surge above 250 would provide strong hints of inflation . . . Watch the S&P -- if it slips **under 645** I think the whole market will be tipping to the downside.





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